Master Document – Audit Program

Activity Code 10320	**MAAR 13 – Purchase Existence and Consumption**
Version 1.1, dated December 2005	
B-1 **Planning Considerations**	
Purpose and Scope	

1. The purpose of this evaluation is to verify that purchased direct materials/services were, in fact received and ascertain that they were:
   - needed for the contract;
   - purchased in reasonable quantities;
   - purchased at a prudent price,
   - used on the contract, and
   - properly accounted for as to initial charge, transfer in or out, and residual value.

2. This program should be used to verify purchased materials/services existence and consumption at major and non-major contractor locations to satisfy the mandatory annual audit requirement (MAAR) requiring verification that material was received and, if applicable, used on the contract. For mobile contractors, MAAR 13 must be performed for the current year during the first field visit to the contractor facility within the year. This will normally be accomplished during a price proposal audit, annual incurred cost audit, or within a specific material audit.

3. "Purchased materials" are raw materials, purchased parts, subassemblies, etc., which are physically incorporated into an end product. Equipment purchased for the customer's use on a flow-through basis, such as computer hardware, or commercially available items for the contractor's use in performing the contract such as trucks and other equipment, are not deemed to be incorporated in the end product.

4. "Purchased services" may include the performance of certain contract tasks by non-company personnel under the direction of the contractor or replacing entire functions within the contractor's organization. Services provided include purchased direct labor personnel to meet temporary requirements, who are supervised by the contractor, or purchasing specific types of services, such as engineers, technical writers and craftsmen, on a regular basis to perform contract requirements.

5. If audit leads from prior evaluations suggest significant risk exists, the auditor should consider performing a MMAS review outside the normal cycle. The extent of audit effort in testing and verifying purchases existence and consumption is dependent on the perceived audit risk and is influenced by (1) the nature and significance of purchased material and services expenses, (2) prior audit experience with the contractor, (3) the reliability and acceptability of the contractor's MMAS system and related internal controls, (4) the contractor's mix of contracts and nature of contract provisions, and (5)

the nature of the contractor's organization and operations.	
6. If the purchased services costs include a significant amount of consultant service costs, the consultant costs should be audited using the Consultant Services audit program (under 10160 activity code in APPS) to evaluate those costs for allowability, allocability, and reasonableness in accordance with FAR 31.205-33.	
7. This program contains audit steps that will help satisfy all or part of the following mandatory annual audit requirements (MAARs):	
• MAAR 1 – Update Internal Control Survey	
• MAAR 3 – Permanent Files	
• MAAR 13 – Purchases Existence and Consumption	
References	
1. CAM 6-300 Audit of Incurred Material Costs and Purchased Services	
2. CAM 5-600 Audit of Purchasing System Internal Controls	
3. CAM 5-700 Audit of Material Management and Accounting Systems Internal Controls	
4. CAM 10-413 Real Time Reporting (Flash Reports)	
5. CAM 10-806 Audit Reports on Noncompliance with Disclosed or Established Practices, CAS, or FAR (Noncompliance Reports)	
6. CAM 4-702.3 and Figure 4-7-3 Identify "Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas"	

B-1	Preliminary Steps	
Version 1.1, dated December 2005		**W/P Reference**
1. Review CAM 6-300		
2. Review the ICQ or MMAS and Purchasing System Internal Control Audit Planning Summary (ICAPS) (if applicable) and related section of the contractor's permanent file to obtain a understanding of the contractor's material accounting policies, procedures, and the level of control risk associated with the related internal controls. Contractor organization charts, material charging and distribution system flowcharts, and listings of current Government contracts are very useful sources of information and should be referred to often during the analysis. All relevant information gathered during the audit should be referenced in the permanent file. (MAAR 3)		

3. If the contractor is classified as non-major (where ICAPS have not been completed) and if evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2:	
a. the audit assignment(s) where reliability of the data was sufficiently established in other DCAA audits,	
b. the procedures/tests that will be performed in this audit to evaluate the purchased materials/services costs that will also support reliance on the evidential matter for the related incurred cost audit, and/or	
c. the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data.	
When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the related incurred cost audit report in accordance with CAM 10-210.4a and 10-504.4a.	
4. Coordinate the review with the ACO and other contracting officer representatives, if necessary. If the work is technical in nature, so that the auditor might be unable to determine whether the effort is being appropriately charged, consider requesting technical specialist assistance.	
5. Request and review the contractor's internal audits of material purchases existence and consumption. Document any reported deficiencies and corrective actions.	
6. Hold an entrance conference with the contractor to exchange preliminary information.	
7. In planning and performing the evaluation, consider fraud risk indicators specific to the audit. Examples of fraud risk indicators for the subject audit area are contained in the following sources:	
Handbook on Fraud Indicators for Contract Auditors, (IGDH 7600.3, APO March 31, 1993) at www.dodig.osd.mil/PUBS/index.html and CAM 6-305b and Figure 4-7-3.	
Document in working paper B any identified risk indicators and your response/actions to the identified risks (either individually, or in combination). This should be done at the planning stage of the evaluation as well as during the evaluation if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.	

Master Document – Audit Program

C-1	Verification of Purchases Existence and Consumption	W/P Reference
Version 1.1, dated December 2005		
1.	Obtain the appropriate contractor accounting records that support the direct charges to contracts and provide the detail of materials and services purchased from an immediately prior accounting/reporting period (preceding day, week, or month) (CAM 6-302f., g., & h.).	
2.	Select an appropriate sample from the contractor's accounting records.	
3.	Physically locate all sample material items and/or verify that the sample services have been received/performed. Determine if any assist audits are required for any off-site locations (CAM 6-305.3a(2)). Request and track the assist audit in accordance with CAM 6-805. (MAAR 12)	
4.	If the selected parts are not located at the contractor's facilities, the auditor needs to perform sufficient follow-up effort. Similarly, if selected purchased services are not being performed at the primary contractor's location, sufficient follow-up effort is required to verify the services are being performed. Follow-up effort could include:	
	a. Request confirmation of the existence of selected parts and/or the performance of purchased services from the cognizant offsite auditors.	
	b. Review shipping and receiving documents.	
	c. Make inquiries to contractor and/or Government personnel and confirm through other corroborating evidence.	
5.	Obtain purchase orders for the sampled materials/services and trace to receiving reports.	
6.	Match receiving reports to vendor invoices.	
7.	Verify that the sampled items were:	
	a. Needed for the contract, by comparing purchase requisitions or purchase orders to contract requirements and/or bill of materials.	
	b. Purchased in reasonable quantity (If a Purchasing System ICR or MMAS ICR is planned for the current fiscal year at this contractor, this step should not be included in the MAAR 13 review since it is covered in greater detail in the ICR).	
	c. Purchased at a prudent price (If a Purchasing System ICR or MMAS ICR is planned for the current fiscal year at this contractor, this step should not be included in the MAAR 13 review since it is covered in greater detail in the ICR). All significant transactions involving charging to Government contracts on a basis other than cost should be reviewed.	
	d. Used on the contract. When materials are requisitioned from stores, audit tests should include items charged to work orders	

	W/P Reference
or similar records.	
e. Properly accounted for as to initial charge, transfer in or out, and residual value in the accounting records. Miscellaneous costs associated with material purchases, such as transportation, charged directly or as items of indirect costs should be reviewed, if material or risk warrants.	
8. Perform a follow-up of any back-ordered materials. Verify that these materials were either received at a later date or deleted from applicable vendor invoices.	

D-1	Development of Findings	W/P Reference
Version 1.1, dated December 2005		
	1. Document the sample audit results.	
	2. Discuss audit results with the audit supervisor.	
	3. If applicable, determine if material mischarges disclosed represent isolated instances or indicate more widespread conditions.	
	4. Determine any costs questioned related to material mischarges.	
	5. If conditions which raise a reasonable suspicion of fraudulent or other suspected irregular activities are disclosed and cannot be resolved by audit, promptly report these as described in CAM 4-702.4.	
	6. Incorporate any assist audits, update the FAO assist audit tracking system (CAM 6-801.1h), and follow-up on any outstanding assist audits.	

A-1	Concluding Steps	W/P Reference
Version 1.1, dated December 2005		
1. Reporting Evaluation Results		
	a. Conduct an exit conference in accordance with CAM 4-304.	
	b. Discuss the audit findings and recommendations with the contracting officer.	
	c. If no significant deficiencies are disclosed, prepare a MEMORANDUM FOR RECORD to close the assignment. If significant internal control deficiencies are disclosed, draft a flash audit report using the format in CAM 10-413. Use the format in CAM 10-806 for reporting CAS/FAR	

noncompliances. (See CAM 6-303(b) for further reporting guidance.)	
d. If applicable, schedule a follow-up review to be performed within a reasonable period of time.	
e. Summarize and cross-reference working papers. Submit the audit work package for supervisory review.	
f. Update the ICQ or ICAPS, as appropriate. (MAAR 1)	
g. Update the MAARs control log, as appropriate. Prepare a MAARs control log for the contractor's fiscal year if one has not already been prepared.	
2. Closing Actions	
Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:	
a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.	
b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.	
c. Review the APPS exe file for temporary files. These files can be recognized by the "~$" or "~WRL" at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.	
d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention "01 DCAA Report [RORG_ASSIGNMENT NO.] – Final.doc" and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word "Report" would be replaced by "MFF" or "MFR" in the	

naming convention as appropriate.	
e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.	
f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with "-sig" added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it may be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor's initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701-2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the "backup" set of electronic files (CD) and any "official" set of hard copy in the hard copy folder.	

l. File the "official" set of electronic files in iRIMS (see iRIMS User Guide).	
m. **<u>Do Not File Sensitive Audits in iRIMS</u>**: Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	